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SUBJECT: AMBASSADOR DISCUSSES MINING AND DEVELOPMENT IN
CAJAMARCA

REF: A) 04 Lima 5441 B) 04 Lima 4471

1. (SBU) Summary. During a March 3-5 trip to Cajamarca in Northern Peru, the Ambassador met with local dignitaries to discuss mining and economic development, toured the Newmont-operated Yanacocha mine, and visited with Peace Corps volunteers. Cajamarca has more factors in its favor than virtually any other Andean province. Economic activity is relatively diversified between agriculture, mining and tourism (though agriculture still employs over 70 percent of the population). The province receives nearly \$100 million per year in mining royalties, and it abuts two fast-growing coastal regions. Still, it is not clear that Cajamarca will make the break through to success. Local government leaders appear to be focused on grand infrastructure projects rather than linking their poor and unproductive farmers as suppliers to the booming agri-industrial enterprises on the coast. Also, officials have tense rather than symbiotic relations with the modern mining sector - one that is key to their future. Like many mountain provinces, many locals fear they will be losers in a Free Trade Agreement between Peru and the U.S. End Summary.

Rich in Resources, But High Levels of Poverty

2. (U) Cajamarca Department has abundant natural resources, accounting for approximately 50 percent of Peru's total gold production. Despite mineral wealth, the department suffers from high levels of poverty. Over 70 percent of the population (almost one million people) live in rural areas. Cajamarca's per capita GDP in 2000 was \$895, less than half the national levels of \$2,100. The majority of Cajamarquenos make their living by producing agricultural products, including mangos (some of which are exported) and milk and cheese (for domestic consumption only). Textile and artisan production also accounts for a small percentage of employment.

Local Government Interested in Trade and Development

3. (SBU) During his trip, the Ambassador met with the Regional Vice President, Mayor of Cajamarca and the Bishop to discuss economic development, including the benefits of an FTA and tourism. Regional Vice President Alejandro Rebaza explained that the regional government plans to improve infrastructure, including building highways that will connect Cajamarca with the more economically prosperous coastal departments of La Libertad and Lambayeque, as well as to Ecuador. The regional government would also like to attract new air carriers, as only one company currently has service to Cajamarca. With improved transportation linkages, Rebaza stated, resources and people will move more freely in and out of Cajamarca.

4. (SBU) Mayor Horna declared that the local government is committed to improving the standard of living, but noted that the lack of funding is an issue. (Note: The Cajamarca regional government received over \$90 million in mining royalties in 2004, which are to be used for development projects.) The government is working to advance energy development, improve the standard of education, and is cooperating with Yanacocha mine to build a new water treatment plant and renovate the regional hospital.

Mining for Economic Development

5. (SBU) During his meeting with local officials, the Ambassador also discussed the role of the mining industry and its tensions with the local community. Monsignor Jose Martinez Lazaro noted that the local population often has unrealistic expectations for Yanacocha (which is majority owned by Newmont Mining and minority owned by Peruvian Buenaventura). The population often falls into dependency, looking to the mine to provide jobs and basic governmental services. Regional Vice President Rebaza stated that while the mine is a major source of local income, local mines must

be more socially responsible. He spoke of a number of projects being pushed by the regional government where he hoped for multi-million dollar contributions from Yanacocha.

16. (SBU) Mayor Horna asserted that relations between the local government and Yanacocha are good, though he also complained that Yanacocha had not followed through on certain unspecified promises. Horna said that his government is helping to coordinate dialogue between the mining community and NGOs. The mines continue to have problems, however, since the majority of the public does not trust the companies, arguing that they are only interested in profits and do not do enough to protect the environment. (Note: September 2004 protests against Yanacocha's exploration of Cerro Quilish were predicated on the belief that Cerro Quilish provides the city's drinking water (reftel B) End Note.)

Visit to the Yanacocha Mine

17. (U) On March 4, the Ambassador, along with over 30 local press, toured Newmont Mining's Yanacocha mine, as well as two of Yanacocha's social projects. Operating over 697 square miles and employing 8,000 workers, Yanacocha produces more than 3 million ounces of gold a year, making it South America's largest gold producer. During a tour of the facilities, General Manager Brant Hinze highlighted facilities to protect the environment, including a state-of-the-art water quality laboratory and dams to prevent sediment from leaching into local farming irrigation systems.

18. (U) Hinze noted that Yanacocha pays over \$160 million in taxes annually. Since it began operations in 1993, the company has spent more than \$14 million on social programs, which include farming and agriculture programs that provide new machinery, as well as artisan programs that teach self-sustainability. In private remarks to the Ambassador, Hinze offered a frank critical appraisal of the company's troubled relations with local communities. Among the problems he cited were (a) Yanacocha's failure to recognize the extent of the problem and to make resolution a priority; (b) a paternalistic approach to social programs (Yanacocha would decide what communities needed rather than develop projects through dialogue with villagers.); and (c) a lack of good information about local concerns that caused the company to misjudge reaction to its activities. The company has hired more than 100 sociologists to listen to community concerns and broadly engage villagers in design of social programs.

19. (U) The Ambassador and the press entourage visited one Yanacocha-supported farming program near the mine. Covering over 14,000 hectares and with 1,150 people living and working on the land, this cooperative produces agricultural products (trout, cheese, milk products), handmade textiles and lumber. In a separate visit to a local jewelry production operation partially funded by Yanacocha, the group was able to see how local artisans teach residents to make jewelry using gold and silver from the mine.

Tourism to the Rescue?

110. (SBU) The Ambassador hosted a round table discussion with local business and NGO officials on March 4. John Herdin, local Vice President of CANATUR (Peru's tourism council), outlined thoughtful and ambitious plans to promote tourism as a vehicle for economic growth. While some of the plans seemed overly ambitious (i.e. making Cajamarca into a regional air hub) tourism entrepreneurs were clearly coordinating well among themselves and bustling with ideas. Luis Ara, Coordinator of the Local Dialogue on Mining, argued that the government should focus on strengthening agricultural output instead of tourism. The majority of the local population, he pointed out, lives in rural areas where farming is the way of life. Agricultural production for export, rather than domestic consumption, should be the government's main goal. The debate continued for over an hour, and while no final conclusion was reached, local officials were able to share their viewpoints in an effort to plan for Cajamarca's future.

Visit to Peace Corps Sites

111. (U) The Peace Corps has a robust presence in Cajamarca, with 27 volunteers living and working throughout the region. Volunteers work in several sectors, including small business development, community health, and youth development. On March 3, the Ambassador attended the regional Peace Corps Counterpart Day, where he had the opportunity to meet 19 of the volunteers. He then toured two of the regional Peace Corps programs; one textiles program outside of Cajamarca city and one program that provides at-risk children with a safe haven, located within the city.

Comment

12. (SBU) The Cajamarca visit provided some insight into the tensions between the local community and Yanacocha mine. The smooth symbiotic relationship between the two that would best promote local economic development has yet to be achieved. The critical self-assessment of Yanacocha management bodes well for improving relations. Unfortunately, the Ambassador did not observe similar critical thinking on the part of regional officials. The latter fully understand the importance of the mine to their ability to generate jobs and services. That notwithstanding, the regional Vice President and Cajamarca Mayor seemed to place a higher priority in squeezing more resources from the company for infrastructure projects. Toward that end, local officials were generating expectations that were unlikely to be met and which would complicate community relations.

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